

# **Southern Ute Indian Tribe**

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**April 18, 2006 Public Meeting**

**Department of the Interior/Department of Energy  
Energy Policy Act Section 1813  
Tribal Lands Rights-of-Way Study**

## **The Red Cedar Case Study**

**Working with industry, the Southern Ute Indian Tribe was able to use superior knowledge of local operations and needs to provide a clear benefit to the consumer**

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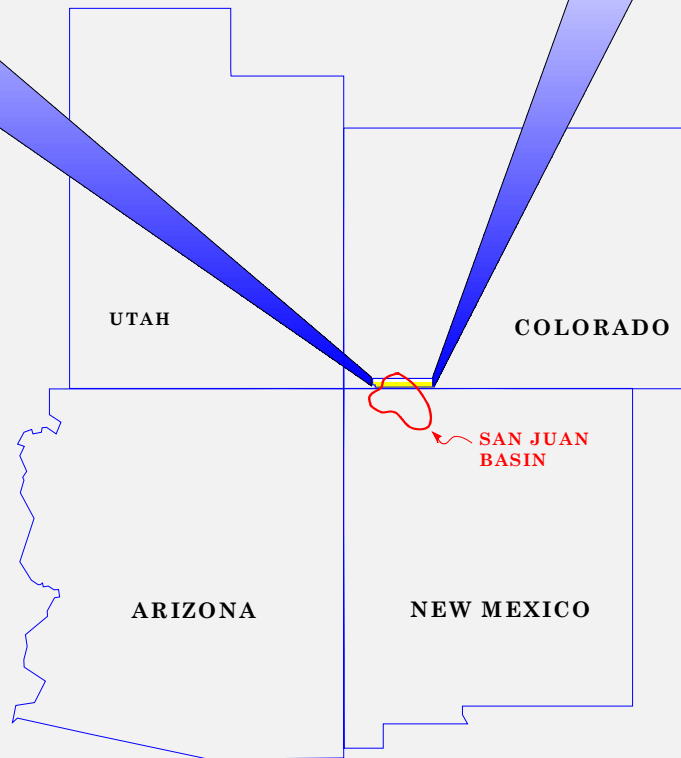
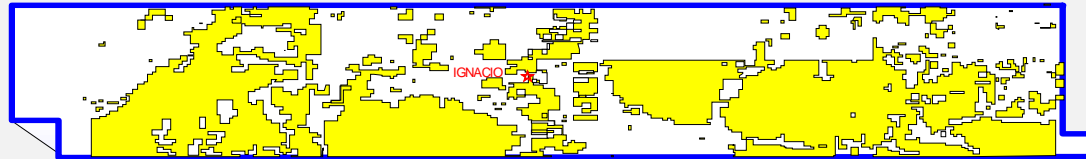
**By creating Red Cedar, a significant amount of gas has been developed, connected and moved to market on an accelerated basis**

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**The Tribe's rights to self determination and consent to the use of its lands were key to making this happen**

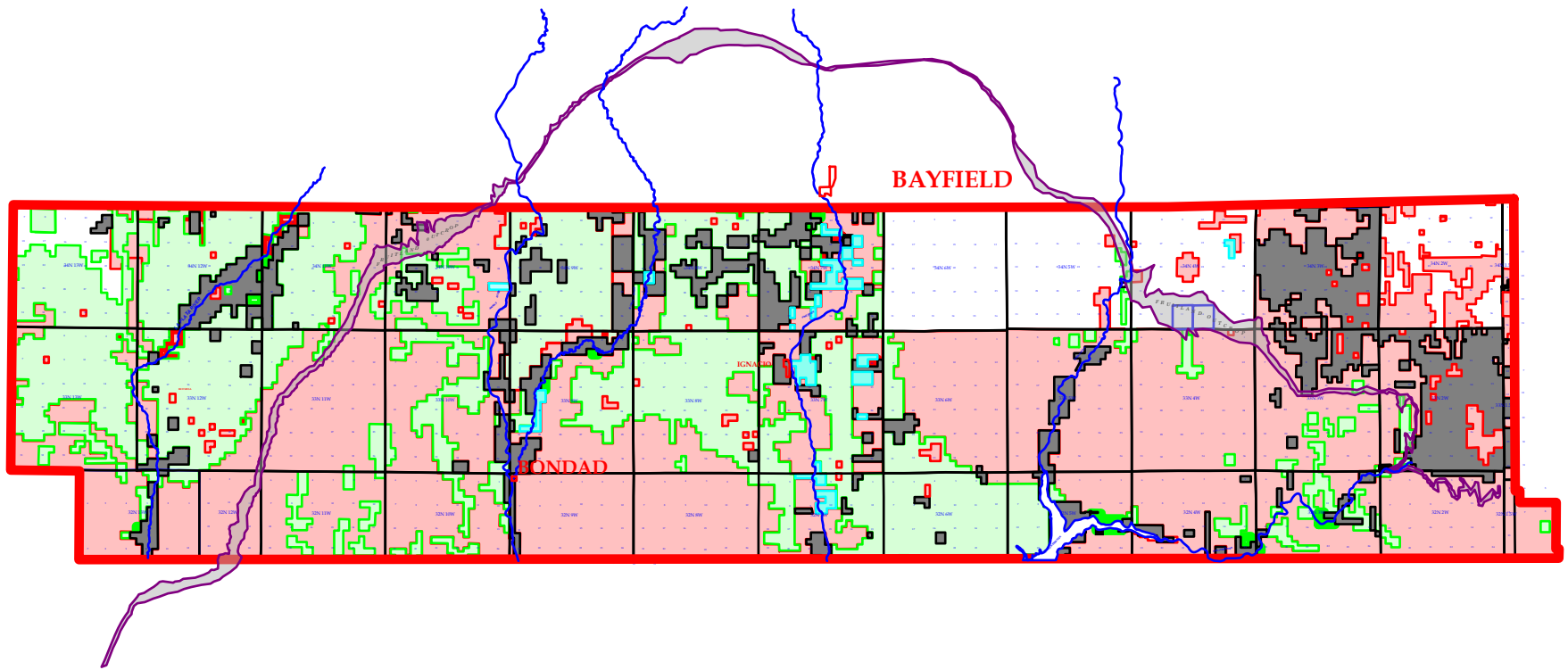


## SOUTHERN UTE INDIAN RESERVATION



**The Southern Ute Reservation lies within the northern part of the prolific San Juan Basin**

**Gas from the Reservation represents significant supplies to major markets in the western half of the U.S.**



**The Reservation contains mixed surface and mineral ownership**

**Extreme terrain adds to the complexity of building pipelines in the area**

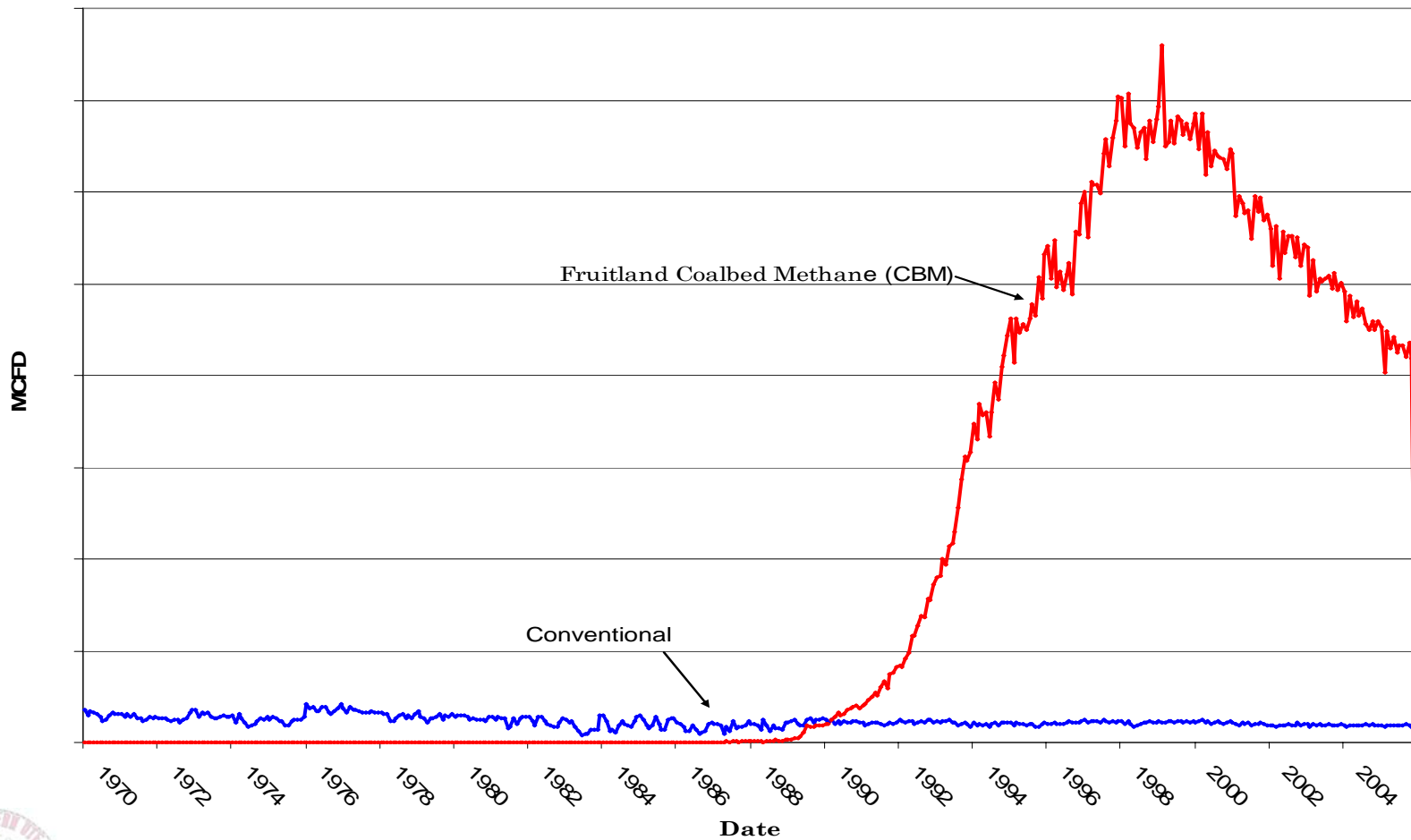


## **San Juan Basin Gas in the 1980's**

- **Prior to the late 1980's, the Ignacio Blanco Field had only conventional gas with marginal wells, amounting to less than 100 mmcf in total**
- **The Tribe studied the potential from coal bed methane wells; findings indicated substantial reserves and a forecast of massive increases in gas production rate**
- **Operators with lease positions confirmed this potential**
- **The Tribe's study of gathering and pipeline transmission capacity, done at the same time, indicated a significant shortfall against the potential volumes from CBM**



## NATURAL GAS PRODUCTION IGNACIO BLANCO FIELD 1970 -> Present



## **Existing Pipeline Operators Not Inclined to Act**

- **Major gas gatherers on the Reservation were not prepared to expand to accommodate the CBM**
- **Their reticence was the result of being too far removed from the situation and risk averse by nature**
- **The gatherers were also large organizations not known for their speed**
- **With CBM production qualifying for Section 29 tax credits and those credits set to expire in a few years, the producers, Tribe, and U.S. consumers stood to lose big if the gas couldn't move**



## **WestGas Begins Expanding**

- **More so than El Paso and Northwest (who then were gatherers on the Reservation), WestGas showed the inclination to expand to aggressively meet growing needs**
- **The Tribe granted WestGas Reservation-wide ROW consent on the basis of a throughput arrangement to encourage rapid expansion**
- **After expanding for a period, PSCO (WestGas' parent) decided to divest non-core businesses; they placed WestGas on the market**
- **The Tribe, then relatively poor, was interested in buying the system and found a partner in the Stephens Group**





## **The Bidding Begins**

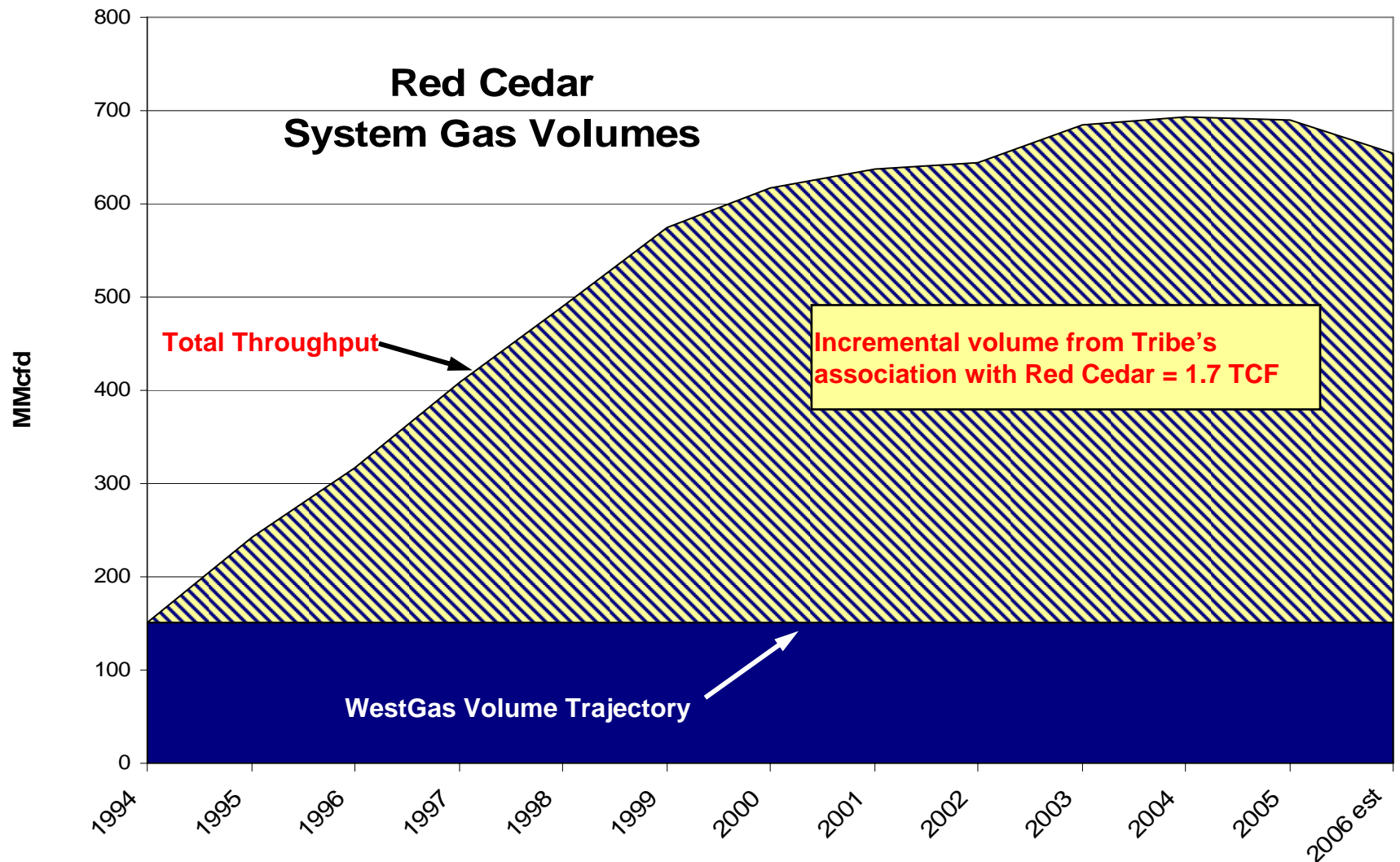
- **The Tribe/Stephens partnership went to PSCO's data room and formulated a bid**
- **After reviewing the bids, PSCO responded that the partnership was being eliminated from consideration**
- **The Tribe believed PSCO had not appropriately highlighted the Tribe's right to consent to WestGas' ROWs (expiring in the mid-term); the Tribe notified PSCO accordingly**
- **After receiving the Tribe's letter, PSCO advised the Tribe that the Partnership would be invited back in**

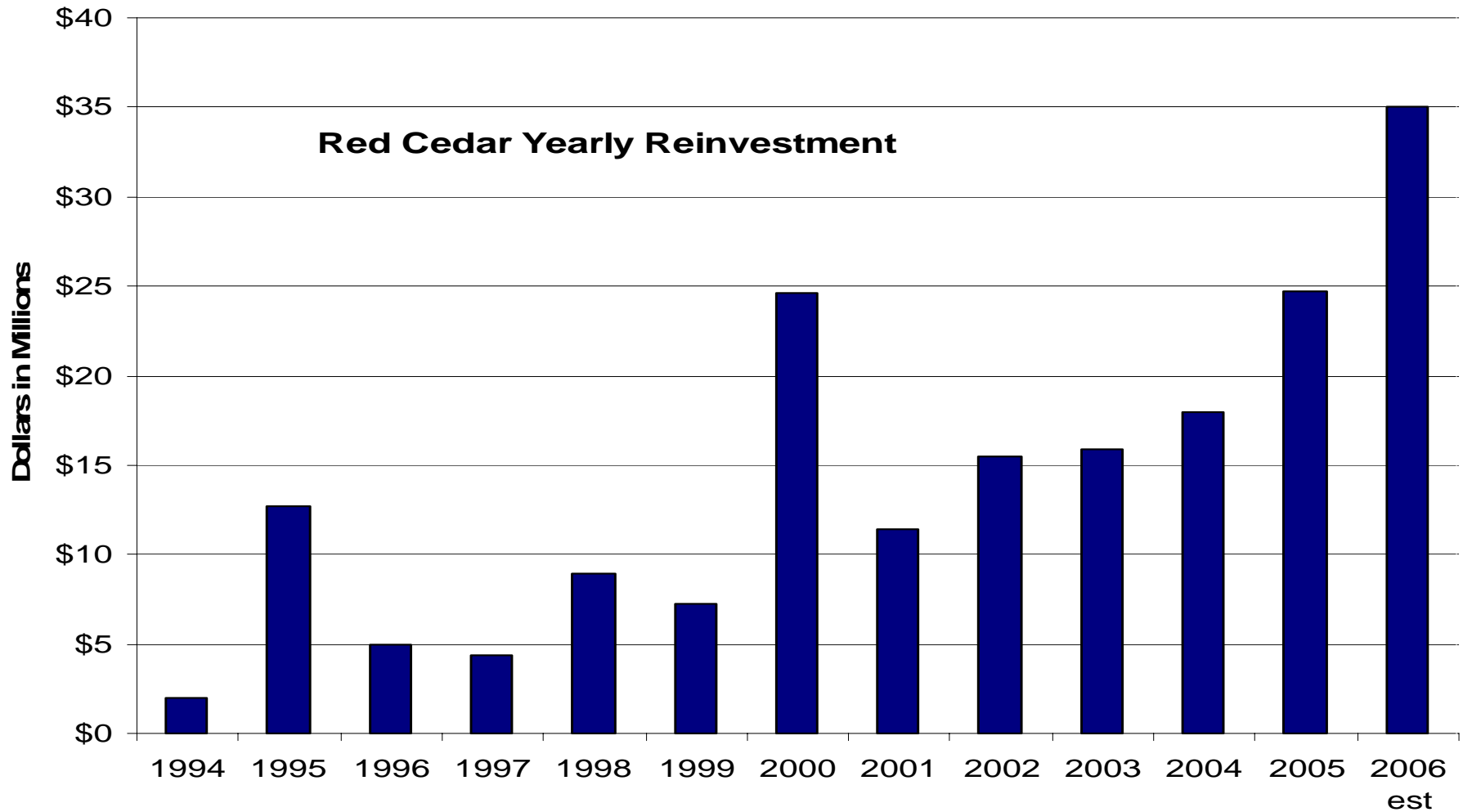


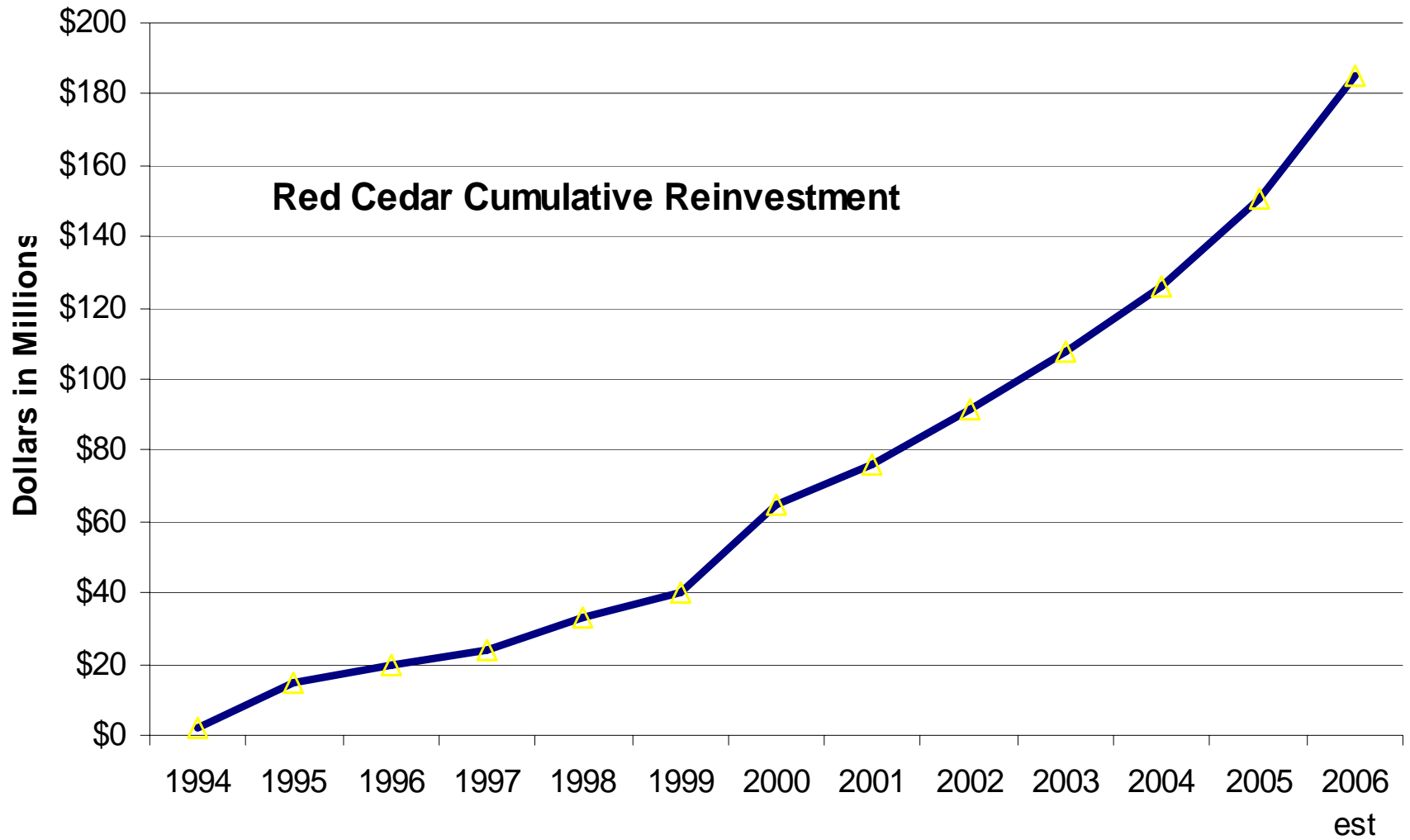
## Red Cedar is Born

- **After negotiating on price, the Tribe/Stephens partnership purchased the WestGas system for \$87 million in 1994**
- **With the assets in hand, the partners created Red Cedar Gathering Company**
- **As part of its partnership arrangement, the Tribe agreed to extend the duration of all Red Cedar rights-of-way for a term of 42 years**
- **Red Cedar embarked on aggressively expanding to connect new wells, add treating capacity, and stay ahead of the producer's gas development plans**

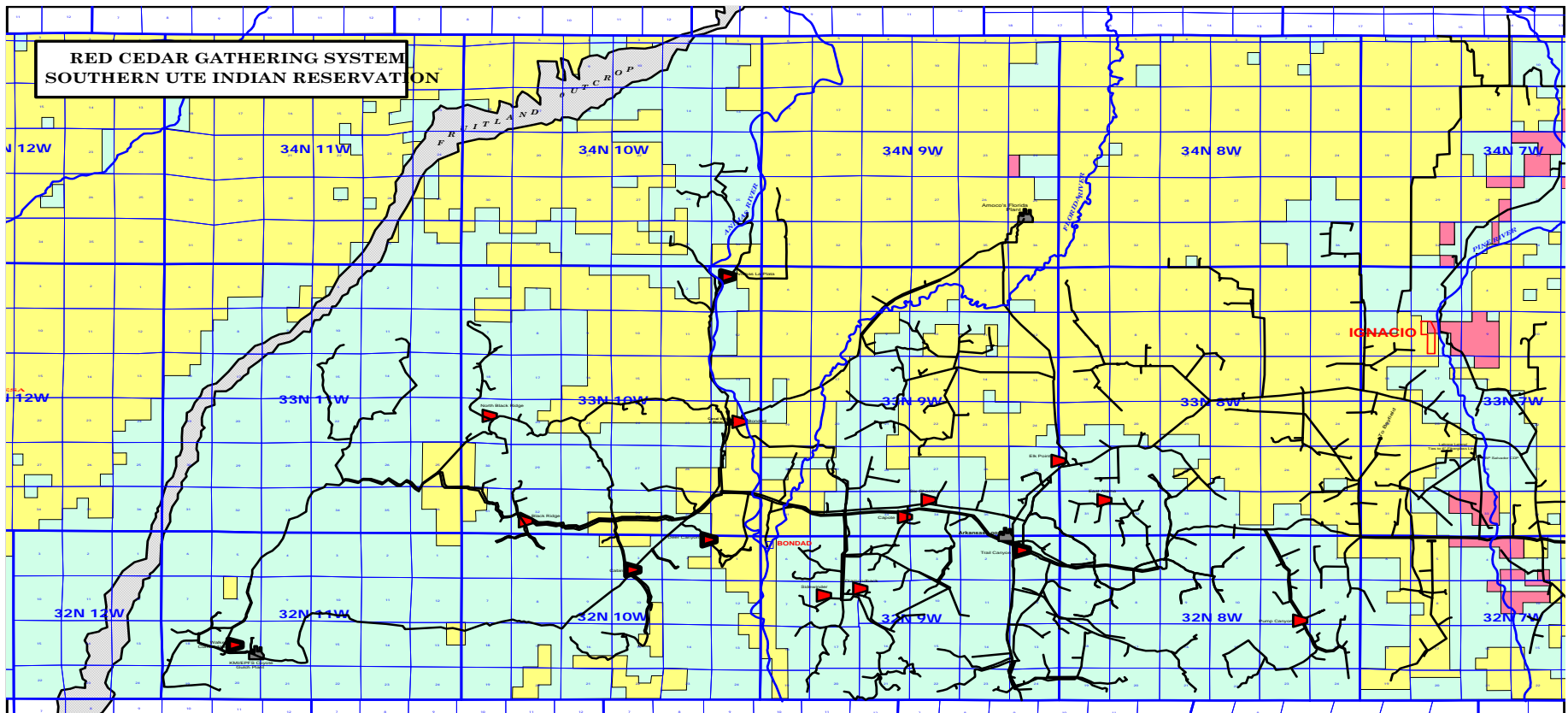








# Red Cedar Pipeline System



## Red Cedar: Then and Now

	<u>1994</u>	<u>2006</u>
<b>Miles of Pipe</b>	<b>220</b>	<b>1200+</b>
<b>Compressor Stations</b>	<b>3 Stations</b>	<b>26 Stations</b>
<b>Compressor Units</b>	<b>6 Units</b>	<b>88 Units</b>
<b>Installed Horsepower</b>	<b>21,000 HP</b>	<b>139,200 HP</b>
<b>Treating Plants</b>		
• Arkansas Loop	<b>+100,000 MCFD</b>	<b>240,000 MCFD</b>
• Coyote	<b>0 MCFD</b>	<b>250,000 MCFD</b>
• Antler	<b>0 MCFD</b>	<b>60,000 MCFD</b>
<b>Wells Connected</b>	<b>&gt;300</b>	<b>1023</b>
<b>Total Gas on System</b>	<b>151,000 MCFD</b>	<b>655,000 MCF/D</b>



## **The Rest is History**

- **Red Cedar's success helped not only the Southern Ute Tribe; it was a key part of the producers moving their gas, allowing them to achieve phenomenal returns on their investment.**
- **It also greatly benefited the average gas consumer in the western U.S. by ensuring substantial gas volumes reached market more economically, more quickly, and with greater certainty.**
- **Red Cedar is a compelling example of the importance of Tribes having ROW consent rights**
- **The Red Cedar example points to how Tribal self-determination in this area can work for the good of all involved**





## Conclusions

- **But for the consent requirement, the Tribe and its partner would not have been able to acquire the WestGas System.**
- **The acquisition of the WestGas System allowed the Tribe to align management of energy resource development with gathering and transmission of energy products.**
- **Strategic alignment of energy resource development and gathering and transmission provided consumers significantly accelerated availability of natural gas products.**
- **The partnership between industry and the Tribe was a financial success for the Tribe and its partner.**



# Red Cedar Flagship

## The Arkansas Loop Plant

